

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 CEA-01 /073 W

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R 200953Z APR 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 4193

INFO AMCONSUL HONG KONG

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E.O. 11652: N/A

TAGS: EFIN, RP

SUBJECT: EFFECT OF FY '76 BUDGET REALIGNMENTS REMAINS UNCERTAIN

REF: 75 MANILA 17038

1. SUMMARY. NEARLY SIX MONTHS AFTER PRESIDENT MARCOS CALLED FOR AUSTERITY IN GOVERNMENT EXPENDITURES, THE EFFECT OF ANNOUNCED CHANGES IN THE BUDGET IS UNCERTAIN. IN SPITE OF THE FACT THAT PLANNED EXPENDITURES FOR FY 76 WERE REDUCED SUBSTANTIALLY IN DECEMBER, ESPECIALLY IN CERTAIN AREAS OF INFRASTRUCTURE DEVELOPMENT, NATIONAL ECONOMIC PLANNERS APPEAR TO BE RELATIVELY UNPERTURBED. THIS APPARENT EQUANIMITY MAY BE PARTIALLY DUE TO THE PAINLESSNESS OF REDUCING EXPENDITURE PLANS WHICH SEEMED TO BE OVERLY AMBITIOUS, AND PARTIALLY TO THE EXPECTATION THAT PLANS ARE DEFERRED RATHER THAN CANCELLED. MORE LASTING FEATURES OF GOP FISCAL POLICY FOR THE BALANCE OF THIS YEAR SHOULD BECOME CLEARER WHEN DETAILS OF THE SIX-MONTH TRANSITIONAL BUDGET COVERING THE LAST HALF OF 1976 BECOME AVAILABLE, PROBABLY IN JUNE. END SUMMARY.

2. FOLLOWING PRESIDENT MARCOS' CALL FOR AUSTERITY IN GOVERNMENT EXPENDITURES NEARLY SIX MONTHS AGO, BUDGETED SPENDING FOR FY 196 WAS REVISED DOWNWARD BY 3.0 BILLION
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PESOS. THE REVISED BUDGET, ANNOUNCED IN LATE DECEMBER

1975, HAS THE APPEARANCE OF A RATHER SIGNIFICANT LOWERING OF HORIZONS. OVERALL BUDGETED EXPENDITURES WERE REDUCED FROM 21.8 PESOS TO 18.8 BILLION PESOS (13.8 PERCENT). THE BIGGEST BITE COMES FROM CAPITAL OUTLAYS, REDUCED FROM 8.5 BILLION PESOS TO 6.3 BILLION PESOS (25.0 PERCENT), WHILE OPERATING EXPENDITURES ARE REDUCED FROM 13.3 BILLION PESOS TO 12.5 BILLION PESOS (6.6 PERCENT). OVER 70 PERCENT OF THE TOTAL REDUCTION, THEREFORE, IS TO BE ATTAINED THROUGH CUTS IN CAPITAL OUTLAY.

3. A DEPARTMENTAL BREAKDOWN OF THE OVERALL DECEMBER BUDGET REVISION SHOWS THAT THE BIGGEST LOSERS IN PESO TERMS ARE THE DEPARTMENTS OF FINANCE(WHICH INCLUDES OUTLAYS FOR SOME 20 SPECIAL AGENCIES CREATED BY PRESIDENTIAL DECREE), PUBLIC HIGHWAYS, AND PUBLIC WORKS. IN PERCENTAGE TERMS, THE DEPARTMENTS OF HIGHWAYS, PUBLIC WORKS, AGRARIAN REFORM, AND THE OFFICE OF THE PRESIDENT LOST HEAVILY.

4. OF GREATER INTEREST THAN OVERALL PLANNED EXPENDITURES ARE FIGURES ON CAPITAL OUTLAY, WHERE A NUMBER OF DEPARTMENTS WERE CUT HEAVILY. THOSE EXPENDITURES HAVE A MORE DISCRETIONARY ASPECT THAN OPERATING OUTLAYS. THE FOLLOWING HAD SIZEABLE CUTS IN BOTH PESO AND PERCENTAGE TERMS: DEPARTMENT OF FINANCE (DOWN 22.4 PERCENT), PUBLIC WORKS (38.3 PERCENT), PUBLIC HIGHWAYS (28.2 PERCENT), AGRARIAN REFORM (34.6 PERCENT), LOCAL GOVERNMENTS (15.5 PERCENT), AND THE OFFICE OF THE PRESIDENT (23.6 PERCENT). PROGRAMMED CAPITAL OUTLAYS FOR SEVERAL OF THE SMALLER AGENCIES WERE ALSO TRIMMED RADICALLY.

5. FURTHER DISAGGREGATING THE FIGURES, 1.4 OF THE TOTAL 2.1 BILLION PESOS REDUCTION IN CAPITAL OUTLAY COMES OUT OF INFRASTRUCTURE PROGRAMS. GREATEST PESO REDUCTIONS ARE FOUND IN ROADS AND BRIDGES (37 PERCENT OF TOTAL REDUCTIONS) AND IRRIGATION (18 PERCENT), WITH SUBSTANTIAL CUTS ALSO IN SCHOOL AND NATIONAL BUILDING CONSTRUCTION. FROM THE STANDPOINT OF EFFECT ON INDIVIDUAL PROGRAMS, THE IMPACT IS ESPECIALLY PRONOUNCED ON PLANS FOR THE NATIONAL BUILDING PROGRAM, NATIONAL HOUSING AUTHORITY, HOSPITALS, GRAINS AUTHORITY WAREHOUSING, AND LIMITED OFFICIAL USE

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PORT WORKS. IT WAS ANNOUNCED IN DECEMBER THAT FOREIGN-ASSISTED PROJECTS WILL NOT BE AFFECTED. AS FAR AS THE EMBASSY HAS BEEN ABLE TO DETERMINE SO FAR, THIS PRINCIPLE HAS BEEN OBSERVED, AT LEAST AS FAR AS USAID PROJECTS ARE CONCERNED.

6. DESPITE THE APPARENT SERIOUSNESS OF THE DECEMBER BUDGET REVISION, HOWEVER, THERE IS SOME EVIDENCE THAT THE

REDUCTIONS IN PLANNED EXPENDITURES WILL NOT RPT NOT NECESSARILY RESULT IN SEVERE PROGRAM CUTBACKS. FROM CONVERSATIONS WITH, AMONG OTHERS, AN ASSISTANT DIRECTOR GENERAL OF THE NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY (NEDA), THE DIRECTOR OF INFRASTRUCTURE PROGRAMS FOR NEDA, THE DEPUTY COMMISSIONER OF THE BUDGET, AND THE CHIEF NATIONAL FISCAL PLANNER, WE GAIN THE IMPRESSION THAT THE BUDGET REVISION IS NOT RPT NOT BEING REGARDED AS AN ESPECIALLY SERIOUS MATTER. FIRST, A PORTION OF THE REDUCTIONS ARE ON PAPER ONLY, IN THE SENSE THAT INITIAL OBLIGATIONS IN SOME AREAS WERE UNREALISTICALLY HIGH. EVEN AT PRESENT LEVELS, NEDA PLANNERS EXPECT THAT SOME PROGRAMS WILL HAVE TROUBLE USING THEIR ENTIRE ALLOCATIONS BEFORE THE END OF THE FISCAL YEAR. SECONDLY AND MORE IMPORTANTLY, THE REDUCTIONS ARE WIDELY REGARDED AS DEFERMENTS RATHER THAN CANCELLATIONS, AND MANY EXPENDITURES MAY BE REPROGRAMMED IN THE SIX-MONTH TRANSITION BUDGET (UL-DEC 1976) TO A NEW FISCAL YEAR, OR IN THE FY 77 BUDGET.

7. THE SIX-MONTH TRANSITION BUDGET WILL NOT BE SUBJECT TO THE USUAL HEARING PROCESS. ON MARCH 18 MARCOS ISSUED DECREE 904, WHICH APPROPRIATES FUNDS FOR THE SIX MONTHS. DETAILS OF THE BUDGET WILL NOT BE AVAILABLE UNTIL A PROGRAM OF EXPENDITURES IS SUBMITTED TO MARCOS. THIS PROGRAM WAS PROJECTED FOR SUBMISSION IN APRIL, BUT NOW IS NOT EXPECTED UNTIL EARLY JUNE. PD 904 CREATES A LUMP SUM OF ALL CAPITAL OUTLAYS, WHICH GIVES MARCOS AND HIS TECHNOCRATS ALMOST TOTAL FREEDOM TO ALLOCATE INFRASTRUCTURE EXPENDITURES AS THEY DEEM FIT DURING THE SIX MONTH PERIOD.

8. ANOTHER ELEMENT OF UNCERTAINTY AT THE PRESENT TIME IS LIMITED OFFICIAL USE

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THE REVENUE PICTURE. THE GENERAL EXPECTATION WITHIN THE GOP IS THAT TOTAL REVENUES WILL BE UP OVER LAST YEAR, BUT SPECIFICS OF THE TRANSITION BUDGET ARE BEING DELAYED UNTIL THE LAST MINUTE, PERHAPS IN PART TO OBTAIN BEST POSSIBLE PROJECTION ON REVENUES.

9. COMMENT. THE REAL IMPACT OF THE DECEMBER CUTS IS PROBABLY LESS THAN INDICATED BY THE DECEMBER REVISION, SINCE PROGRAMMED EXPENDITURES IN SOME AREAS WERE APPARENTLY EXCESSIVE AND BEYOND THE ABSORPTIVE CAPACITY OF THESE SECTORS. IF THE REDUCTIONS ARE MAINTAINED, HOWEVER, THEY WILL HAVE SOME PERMANENT EFFECT ON DEVELOPMENT PLANS. THE EXTENT OF WHICH THE CUTS IN BUDGETED EXPENDITURES REPRESENT REAL AUSTERITY HAS YET TO BE DETERMINED, BUT SHOULD BECOME CLEARER WHEN THE TRANSITION BUDGET IS

ANNOUNCED IN JUNE. END COMMENT. STULL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, TRADE CONTROLS, BALANCE OF PAYMENTS, ANTIINFLATIONARY PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MANILA05407
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760149-0134
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760444/aaaabkxi.tel
Line Count: 170
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 MANILA 17038
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 26 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 MAY 2004 by buchant0>; APPROVED <20 SEP 2004 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EFFECT OF FY '76 BUDGET REALIGNMENTS REMAINS UNCERTAIN
TAGS: EFIN, RP, (MARCOS, FERDINAND)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006